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Ideas on Liberty

DECEMBER 1977

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Marco Polo on Money

Aranco World Magazine



HAVING SPENT what seems the better part of a lifetime reading and studying the practical and theoretical ideas of the great economists, I recently found myself at a loss when asked what economist best explains what has happened to our money in these recent years of superinflation. Who wouldn't? I dodged the question by defining our two greatest current economic problems as inflation and unemployment. I said that Calvin Coolidge once amusingly defined unemployment as a condition: "When more and more people are thrown out of work—unemployment results." In that same vein, I replied, "When more and more paper money is thrown into the economy by government—inflation results."

Mr. Kennedy is a student of liberty and a free-lance writer in Berkeley, California.

On returning to my library, to my dismay I really couldn't decide what economist best explains money and how the various governments use and misuse it to any great degree of clarity in less than a million words. The central problem of the *economist* during the past century, in my opinion, is his inability to explain fundamental economic principles with an *economy* of words.

If one wishes a clear and very prophetic explanation of what governments do to create money, consult an early writer on the subject who explored the question well before the science of economics became a gleam in Adam Smith's eye. I refer you to the eminent Venetian explorer and entrepreneur, Marco Polo (1254-1324), who spent a quarter of a century living and traveling throughout the near and far east. He

returned to his native Venice in 1295 to tell Europeans about an unknown world.

Marco Polo spent some time in the service of the Emperor of China, Kublai Khan, one of the most powerful and richest monarchs in medieval and modern history. Polo attained some wealth and power himself. When he returned to Venice he found himself embroiled in one of the many wars between the Italian city states of the time. As a prisoner of war in Pisa in the service of Venice, he dictated to a fellow prisoner his experiences in Asia that became his classic: *The Travels of Marco Polo*.

The Renaissance

The result of the publication of this book was a rapid increase in commerce between the Italian city states and China. This expansion of enterprise soon spread to the rest of Europe as well. The result for Italy was the creation of wealth and leisure that made possible the Renaissance.

For the rest of Europe as well it meant the slow death of the medieval period and the coming of the age of exploration and enterprise. It was, after all, a passage to India and China by sea that Columbus sought in 1492. *The Travels of Marco Polo* is among the books that helped shape the world we now live in.

The great Chinese civilization of that period, the Yüan dynasty, formed by Kublai Khan in 1271 is credited with sending many of China's innovations to the Western world via Marco Polo. Its cuisine, silk, spices, gun powder, rockets and other weapons of war are among the most famous.

But perhaps the innovation most constructive and destructive throughout western history, depending on whose hands it was in, was the use of paper money as a substitute for what had been used as real money in other civilizations—gold and silver. Gold and silver are still acknowledged as real money in every civilized nation as well as recognized commodities of real value in primitive societies. Paper money was introduced as a new idea to western civilization by Marco Polo in a chapter of his *Travels* entitled: "How the Great Khan Causes the Bark of Trees, Made into Something Like Paper, to Pass for Money All Over His Country". After reading the chapter title like that, Polo's readers probably thought the Great Khan to be the Great Con.

Marco Polo writes as follows:

"Now that I have told you in detail of the splendor of this city of the emperor's, I shall proceed to tell you of the mint which he has in the same city, in the which he has his money coined and struck, as I shall relate to

you. And in doing so I shall make manifest to you how it is that the great Lord may well be able to accomplish even much more than I have told you, or am going to tell you in this book. For, tell it how I might, you never would be satisfied that I was keeping within truth and reason!

"The emperor's mint then is in this same city of Cambaluc, and the way it is wrought is such that you might say he has the secret of alchemy in perfection, and you would be right. For he makes his money after this fashion. He makes them take of the bark of a certain tree, in fact of the mulberry tree, the leaves of which are the food of the silkworms, these trees being so numerous that the whole districts are full of them. What they take is a certain fine white bast or skin which lies between the wood of the tree and the thick outer bark, and this they make into something resembling sheets of paper, but black. When these sheets have been prepared they are cut up into pieces of different sizes.

Signed and Sealed

"All these pieces of paper are issued with as much solemnity and authority as if they were of pure gold or silver; and on every piece a variety of officials, whose duty it is, have to write their names, and to put their seals. And when all is

prepared duly, the chief officer deputed by the Khan smears the seal entrusted to him with vermilion, and impresses it on the paper, so that the form of the seal remains imprinted upon it in red; the money is then authentic. Anyone forging it would be punished with death. And the Khan causes every year to be made such a vast quantity of this money, which costs him nothing, that it must equal in amount all the treasure of the world.

"With these pieces of paper, made as I have described, he causes all payments on his own account to be made; and he makes them to pass current universally over all his kingdoms and provinces and territories, and whithersoever his power and sovereignty extends. And nobody, however important he may think himself, dares to refuse them on pain of death. And indeed everybody takes them readily, for whosoever a person may go throughout the great Khan's dominions he shall find these pieces of paper current, and shall be able to transact all sales and purchases of goods by means of them just as well as if they were coins of pure gold.

"Furthermore all merchants arriving from India or other countries, and bringing with them gold or silver or gems and pearls, are prohibited from selling to any one but the emperor. He has twelve experts chosen for this business, men of

shrewdness and experience in such affairs; these appraise the articles, and the emperor then pays a liberal price for them in those pieces of paper. The merchants accept his price readily, for in the first place they would not get so good an one from anybody else, and secondly they are paid without any delay. And with this paper money they can buy what they like anywhere over the empire, while it is also vastly lighter to carry about on their journeys. . . . So he buys such a quantity of those precious things every year that his treasure is endless, while all the time the money he pays away costs him nothing at all. Moreover, several times in the year proclamation is made through the city that any one who may have gold or silver or gems or pearls, by taking them to the mint shall get a handsome price for them. And the owners are glad to do this, because they would find no other purchaser give so large a price. Thus the quantity they bring in is marvelous, though those who do not choose to do so may let it alone. Still, in this way, nearly all the valuables in the country come into the Khan's possession.

"When any of those pieces of paper are spoilt—not that they are so very flimsy neither—the owner carries them to the mint, and by paying three per cent on the value he gets new pieces in exchange. And if any baron, or any one else soever, hath

need of gold or silver or gems or pearls, in order to make plate, or girdles, or the like, he goes to the mint and buys as much as he list, paying in this paper money.

"Now that you have heard the ways and means whereby the great Khan may have, and in fact *has*, more treasure than all the kings in the world; and you know all about it and the reason why."

The Tragedy of Paper

Marco Polo's account of this unique Chinese method of the minting of money through the use of paper is both amusing and tragic. It is amusing to us in this so-called enlightened, modern and sophisticated age to recall the ease at which the absolute monarch of China controlled the currency of his empire. It is easy to laugh at how mandarins, merchants and ordinary people were "taken" by their government during the years of the Yüan dynasty in China under a thoroughly autocratic regime. After all, it was the 13th century. But look at what the western democratic governments have done to money in this the twentieth century. It is no laughing matter, and it becomes more tragic with each passing day.

In our own country paper money not only loses value every day, it loses value every night as well.

What is the root of the problem—the emperor of China? He was only

the ancient antecedent, and the teacher of every modern would-be emperor who followed him through the course of history. Kublai Khan sought only to enrich himself, while other government masters have entertained more ambitious plans for themselves and their subjects. Every government that has sought to relieve the distress of one portion of its population at the expense of another through the printing of paper money backed by nothing

more than threats or promises has contributed to the distress of all.

When dictators of all ideological persuasions flee their shores, they flee not with paper money but with gold, silver, art objects or diamonds. They leave the paper money and their expense accounts for their subjects.

If one kind or gracious thing can be said for them, it is this: They know the value of money. After all, they had it printed. ⊕

Currency Convertibility

THE VALUE of currencies, like the value of many other commodities, depends upon a thousand factors which cannot be measured. These depend upon the opinions of the thousands of businessmen who want to buy currencies and upon those who wish to buy and sell the goods these currencies can purchase.

No government has a yardstick that can measure the value of the goods currencies can buy, and this means that no government has a standard for measuring the value of currencies and the rate at which they should exchange for one another. The only possible way to ascertain the value of a currency is to place it on the free market and see what people will pay for it.

To fix by law an exchange rate between two currencies which will represent the true value of both currencies is impossible. When values depend upon so many factors which cannot be measured, then it is almost inevitable that a fixed rate must cheat one of the parties to every exchange transaction.

GEORGE WINDER

IDEAS ON



LIBERTY



World in the Grip of an Idea.

Clarence B. Carson

12. Nazi-Soviet Parallels

ON August 21, 1939, a shocking announcement was made in Moscow: the Nazi government of Germany and the Communist government of the Soviet Union had reached an agreement. It was billed as a non-aggression pact between the two countries and has been called by such various names as the Nazi-Soviet Pact, the von Ribbentrop-Molotov Pact, for the two foreign ministers who negotiated it, and the Moscow Pact. What was shocking was that these two avowed enemies

should reach an accord; this, plus the dread implications it had for power alignments in the world. (There were dark rumors in those days of a Rome-Berlin-Moscow-Tokyo Axis against most of the rest of the world.) The Nazis were supposed to be on the "extreme right" and the Communists on the "extreme left" of the ideological spectrum. They had supported opposing sides in the Spanish Civil War, and Communists were proclaimed anti-Fascists (which included Nazis) while Nazis trumpeted their anti-Communism. The accord left many communists around the world facing in the wrong direction, so to speak.

The Nazi-Soviet Pact lasted for

In this series, Dr. Carson examines the connection between ideology and the revolutions of our time and traces the impact on several major countries and the spread of the ideas and practices around the world.

nearly two years. The portion that was made public appeared to be a non-aggression pact. But the secret protocols which accompanied it made it, in effect, a mutual aggression treaty. Eastern Europe was divided into spheres of influence between the Nazis and Communists. A few days after the signing of the pact, German forces invaded Poland, launching World War II. While Polish forces were more than occupied in the west, the Soviet armies invaded that hapless country from the east. The defeat of the Poles, which came with astonishing swiftness, was followed by the division of Poland between Germany and the Soviet Union.

When Hitler's armies invaded Poland, Britain and France declared war on Germany. When Stalin's armies invaded Poland, no action was taken against the Soviet Union. (Some history textbooks do not even mention the Soviet invasion; those that do, generally do not explore its significance. Less than a year later, when Italian armies invaded France following the Nazi incursion, President Franklin Roosevelt declared: "The hand that held the dagger has plunged it into the back of its neighbor." He might have made the same dramatic remark earlier about the Soviet Union, but he did not.)

During the ensuing fall and winter, while German and Allied forces were bogged down in a "phony

war," the Germans safe behind the Siegfried Line and the French and British behind the Maginot Line, the Soviet Union continued its aggressions. Soviet forces occupied strategic locations in Latvia, Estonia, and Lithuania as a prelude to their annexation. Then, Soviet forces invaded tiny Finland. The Finns, in one of the more heroic episodes during World War II, held the Soviet armies at bay for most of the winter before they finally succumbed.

Twin Aggressors

There was a more appropriate reaction in Western Europe and America to this act of aggression. The Soviet Union was expelled from the League of Nations, and the Allies offered military help to Finland but were unable to provide it because the other Baltic countries would not permit it to pass through their ports. Into the spring of 1940 the Soviet Union was running "neck and neck" with Germany for the lead as an aggressor nation. Thereafter, Germany forged ahead with the invasion of Norway, Denmark, Holland, and Belgium.

The point is this, however: for a brief interlude during the life of the Nazi-Soviet Pact the affinity of Nazis and Communists was displayed for all to see, even if many preferred to avert their eyes from the spectacle. This should not be

taken to mean that there were not differences between Nazism and Communism. It is rather to say that such differences as there were, were accidental and inorganic. They were differences of focus, of intention, and of articulation. By contrast, the similarities were organic and essential.

Nazism and Communism are best understood as parallel systems spun from essentially the same ideological materials. That they were competitors for dominion over the peoples of the world there should be no doubt, competitors whose eventual clash with one another may well have been inevitable. But competition arises from those offering essentially the same product or service, not from those at opposite ends of the spectrum. Their pact was a temporary agreement to divide up the territory over which they would hold sway, much as two giant cartels might agree to divide up the market until such time as one or the other would be strong enough to begin its incursion into the other's area.

The essential similarities of these parallel systems emerge from a comparison of them. Their modes of operation and political structure would hardly have been more nearly alike if they had come from the same mold.

In the first place, both Communists in Russia and Nazis in Germany seized power by the use of

violence. True, the Nazis appeared to come to power legally, but actually Hitler only got into office legally, not to real power. As has been shown, the Nazis only attained a parliamentary majority by illegally denying seats to the Communist Party. In a similar fashion, Hitler got his Enabling Act by suppressing opponents and terrorizing his collaborators. There was nothing more than a semblance, if that, of legality in the suppression of political parties, the subjection of the states, and the subjugation of the labor unions. The murder of political opponents laid bare just how illegal had been Hitler's thrust to power. There was never any doubt, of course, that the Bolsheviks seized power in Russia.

Minority Rule

Both Nazi and Communist rule was the imposition of the will of the minority on the majority. Both Nazis and Bolsheviks failed to get a majority in the last (relatively) free elections held before they consolidated their power and outlawed opposition parties. The Nazis tried to cover this over by holding plebiscites, elections in which the alternative was to be for whatever was being proposed or for nothing, i.e., against it. The Communists have tried over the years to provide an appearance of popular support for the regime by having elections in which there is only a single slate of

candidates. The people are asked not to elect but to give approval to what already has been decided. Actually, since the parliament had no significant power in Nazi Germany and has none in the Soviet Union, the make-up of them came to be a matter of little importance.

Nazi Germany was and Soviet Russia is a one-party state. In both cases, once their leaders came to power, these parties ceased to be political parties, to the degree that they ever had been, and became instruments of the ruling elite. They were not originators of policy. How could they be? It is only in opposition to other parties that party programs have any significance. They became, instead, tightly knit, fiercely loyal, and militant organizations to support the will of the rulers.

Nazi Germany had a personal dictatorship. In Nazi theory and practice all power and authority proceeded from the Führer, the leader, Adolf Hitler. *Hitler did not care at all for administrative detail and spent very little time on it. Some of the most momentous decisions he made, such as that of the extermination of the Jews, were not even recorded so far as has been determined. (He may not have wanted a record, of course, of the decision to exterminate the Jews.)* Hitler's orders were often given out informally to associates and companions, more

as wishes than commands. The method was more that of gangsters than what is ordinarily expected of prime ministers and heads of state (Hitler was both after the death of Hindenburg, though he wished to be addressed as "Mein Führer"). Many decisions apparently were handed down at the mid-afternoon dinners when Hitler was in Berlin. These frequently were attended by Goebbels, Himmler, Hess, and other leading figures, though rarely by Goering who preferred more sumptuous fare. Albert Speer, who often attended, put it this way:

Dining with Hitler regularly meant a considerable loss of time, for we sat at table until half past four in the afternoon. . . .

Yet it was important for one's prestige to attend these dinners. Moreover, it was important to most of the guests to be kept abreast of Hitler's daily opinions. The round table was useful to Hitler himself as well, for in this way he could casually and effortlessly hand down a political line or slogan.¹

Dictators All

The Soviet Union, too, has had a succession of personal dictators. The practice began with Lenin, reached its apogee with Stalin, and was continued by Malenkov, Khrushchev, and Brezhnev. Communists usually have made some effort to hide the personal character of the dictatorship behind a facade of "collective

leadership," but the reality has surfaced too often for it to be generally believed. In his "Secret Speech to the Twentieth Party Congress," Khrushchev made clear the personal nature of Stalin's rule:

Stalin acted not through persuasion, explanation, and patient co-operation with people, but by imposing his concepts and demanding absolute submission to his opinion. Whoever opposed this concept or tried to prove his viewpoint, and the correctness of his position, was doomed to removal from the leading collective and to subsequent moral and physical annihilation. . . .²

What Khrushchev's remarks may obscure, however, is that while there have been differences in degree of personal rule, it has been characteristic of communist governments, whether in the Soviet Union or elsewhere.

There were even parallels in the style of living of Hitler and Stalin. Both men were "night owls," given to staying up to the wee hours of the morning and keeping their associates awake with them. They were both addicted to movies, Hitler's taste running to musicals while Stalin liked American westerns. Stalin had a screening room for films in the Kremlin, but Hitler had his own "theater" in his hideaway in Obersalzberg. Both men had warped senses of humor, preferring jokes at the expense of those around them. Stalin was, if anything, the cruder of

the two. In late night drinking sprees, he was apt to do such things as have Khrushchev, or others, perform a Russian folk dance in which they lacked all talent. Both were anti-Semites. Hitler, of course publicized his anti-Semitism, but Stalin was more circumspect in displaying his. Khrushchev gives these examples of Stalin's anti-Semitism:

. . . When he happened to talk about a Jew, Stalin often imitated in a well-known exaggerated accent the way Jews talk. This is the same way that thick-headed, backward people who despise Jews talk when they mock the negative Jewish traits. Stalin also liked to put on this accent, and he was pretty good at it.

I remember when I was working in Moscow, some kind of trouble at the Thirtieth Aviation Factory was reported to Stalin through Party channels and by State Security. During a meeting with Stalin, while we were sitting around exchanging opinions, Stalin turned to me and said, "The good workers at the factory should be given clubs so they can beat the hell out of those Jews at the end of the working day."³

If Khrushchev is to be believed, he considered this a direct order from Stalin, but he did not carry it out.

A Lonely Position

Both Hitler and Stalin apparently were fearful of being alone, which was the main reason for keeping people around so late at night. Speer has said of the late nights with Hitler at Obersalzberg: "From one

o'clock on some members of the company, in spite of all their efforts to control themselves, could no longer repress their yawns. But the social occasion dragged on in monotonous, wearing emptiness for another hour or more, until at last Eva Braun had a few words with Hitler and was permitted to go upstairs. Hitler would stand up about a quarter of an hour later, to bid his company goodnight."⁴ Of Stalin, Khrushchev says: "He suffered terribly from loneliness. He needed people around him all the time. When he woke up in the morning, he would immediately summon us, either inviting us to the movies or starting some conversation. . . . He was depressed by loneliness and he feared it."⁵

There are many monstrous aspects to this immense concentration of power in one man but none more than their role in making war. According to Khrushchev, Stalin planned military operations on a globe! He never visited the front lines and could not be persuaded to consult detailed maps. Khrushchev told in detail the effects of this on one operation. It was in the Kharkov region in 1942. Stalin had ordered a massive encirclement operation. Those who were on the scene perceived the great danger of trying to carry it out. However, it was most difficult to reach Stalin on the matter, and when he finally was con-

tacted he insisted that the operation must be carried forward as planned. "And what was the result of this? The worst that we had expected. The Germans surrounded our army concentrations and consequently we lost hundreds of thousands of our soldiers."⁶

Hitler believed himself to be a military genius, and many military men were greatly impressed with his early successes in directing military operations. Hitler was a master of the politics of collectivism, as already has been noted, and so long as he could conduct war in a similar manner as his political moves, i.e., by surprise, by audacity, by swiftness, and by doing the unexpected, he was a master strategist. However, once his forces were on the defensive these tactics were of little use. Armies that are overpowered need to withdraw, to cut their losses, maintain discipline, shorten their lines, and take up superior positions. Time and again Hitler refused to authorize tactical withdrawals, insisting that his units stand their ground or seize the initiative, only to have them overwhelmed or retreat in disarray. Although there is no satisfactory way to calculate such things, it is probable that the number of deaths attributed to Stalin and Hitler should be increased by several millions on account of their military blunders.

My main purpose here is neither

to prove that Hitler and Stalin were dictators nor that dictatorship can have horrifying unwanted consequences. Those are points, of course, that are well taken, but they are generally, though not universally, accepted. The point is rather that collectivism entails dictatorship, entails the concentration of power in the hands of a single man, and that the ills that follow are a consequence of collectivism.

In short, dictatorship as we have come to know it in the twentieth century is an effect, not a cause. It is the necessary effect of the idea which has the world in its grip. If all effort is to be concerted to achieve an end, any end, that effort must be directed by a single man, else it will be dispersed due to the diversity of men. Communism was the cause of Stalin's dictatorship. Nazism was the cause of Hitler's dictatorship, even though it is conceivable that Hitler contrived the Nazi ideology in order to become dictator. Rule by one is the norm for the control and direction of all human organizations; rule by one is transformed into personal dictatorship by collectivism.

Atonement

The key to understanding the effects produced by socialist or collectivist ideologies is their thrust to *concert* all efforts. These ideologies proclaim that man is not free and

creative because he is not at one with those around him. He is not at one because there are those in his midst who have aims and purposes at odds with him. This external conflict internalizes itself in the individual as the drive to pursue his own self-interest, which, in turn, tends to set every man against every other man. Socialist ideologies propose a historical explanation for this condition. Marxists hold that the condition is a product of the class struggle, a struggle resulting from the control of the means of production of goods and services by some dominant class. In this latest age, capitalists constitute that dominant class, and they are the disrupters of the harmony and productivity of man. According to Nazi ideology, the historical conflict is basically racial. According to Hitler, what stood in the way of unity, harmony—at oneness—and freedom of the German or Nordic peoples was the presence in their midst of disruptive races, or, more specifically, the Jews.

What collectivist ideologies attempt to achieve, then, is at-onement. (This is the religious word "atonement," which socialists do not employ, but which captures the overtones of their meaning. The unity or at-one-ment they profess to seek, of course, is not with God but within society, which is the deepest reason for referring to them as

socialists.) The basic device for achieving an at-one-ment within society is what is called by psychologists "projection." That is, they project upon some other group or class or race the blame for the ills or discontents that beset them. This is also known as "scapegoating." The Marxists blame the disruption upon the "exploiting classes," upon capitalists, imperialists, or whatever. The industrial worker is invited to project the blame for his condition upon the owners of factory and mine. The peasant is to lay the blame for his deprivation upon the landlord. Hitler, of course, projected the blame for the disharmony and disruption of the German people on the Jews.

Enemies to Demolish

Both Nazi and Marxist ideologues sometimes presented their cases very simplistically. To the Marxists, it would only be necessary for the proletariat to seize the means of production from the capitalists, and everything would be set right. To the Nazis, it would only be necessary to suppress and drive out the Jews, and the Germans would be freed from the incubus afflicting them. But, of course, it was never that simple. In both ideologies, society was supposed to be deeply infected; the sources of the disintegration of the individual and society lay deep.

To the Marxists, capitalist ideol-

ogy was deeply imbedded in the whole cultural framework. This condition was described as the prevalence of bourgeois culture. Due to this prevalence, the pursuit of self-interest which occasioned the disharmony and produced the disruption in society had penetrated the arts, literature, the family, all social institutions, and was given the color of divine sanction by religion. Only the most advanced of an elite could be free from its sway at the outset.

The Jewish infection, as Hitler was given to calling it, was believed by the Nazis to have burrowed deeply into German culture, and into that of other peoples as well. There were, of course, many prominent Jews in literature, in music, in the other arts, and particularly in the field of publishing. The great carrier of the "Jewish infection," Hitler claimed, was international Marxism. But it takes no great insight to perceive that there was an even more pervasive source of "Jewish infection" in Germany, namely, the Christian churches. The roots of Christianity in Judaism, the fact that Jesus was born a Jew, were facts that Hitler might ignore publicly but which did not go away by being ignored. Some of the Nazis were as outspokenly anti-Christian as they dared to be. Heinrich Himmler and Martin Bormann were two of the more prominent. Speer says that Bormann carried on a continual

verbal campaign against the churches with Hitler. Hitler's standard reply was, "Once I have settled my other problems . . . , I'll have my reckoning with the church. I'll have it reeling on the ropes."⁷

Rooting Out Infections

A part of the repression of Nazi and Soviet regimes was aimed at the "scapegoats," those on whom the blame for conditions was projected. Another part was aimed at rooting out and destroying any "infections" from these elements. The remainder of the repression, so far as it was ideological in origin, was aimed at concerting all efforts, i.e., producing action in conformity with the regime. Vladimir Yurasov, a defector from the Soviet Union, has summed up the impact of all this in a fictionalized account of his experiences. The following quotations in the speech of one of his characters are supposed to be from General Serov, a real life head of military security:

... We cannot permit our people to live as they please! Do you understand? People it seems have themselves too much in mind! But government deems that you should deny your own self, become the same sort of fanatic or else—off to a labor camp! Off to become a slave! Katia, *do you understand?*⁸

Hitler described the Nazi idea this way: "The underlying idea is to do away with egoism and to lead people

into the collective egoism which is the nation."⁹ Or again, "It is essential that the individual should slowly come to realize that his own ego is unimportant when compared with the existence of the whole people. . . ."¹⁰ He would, he declared, stamp "the Nazi *Weltanschauung* [world outlook] on the German people." For, "it is only the harshest principles and an iron resolution which can unite the nation into a single body. . . ."¹¹

Curbing Individuality

In both the Nazi and Soviet systems, then, the individual could be of no importance. Only as he joined his efforts to those of the mass would they be of consequence. It follows that individual liberty would be dependent upon the will of the regime, that individual rights could hardly exist, that freedom of choice would be severely circumscribed, and that private property could exist in name only. So it is in the Soviet Union; so it was in Nazi Germany.

Neither freedom of speech, nor freedom of press, nor freedom of association could be tolerated. In the Soviet Union, individuals have been sentenced to years of servitude in forced labor camps for failing to report some anti-Communist remark or joke that they have overheard. A priest was sentenced to death in Nazi Germany for making an anti-Nazi joke in front of an electrician

who was working at his rectory.¹² Joseph Goebbels, Propaganda Minister for the Nazis, was in charge of the news, among other things. He determined what should be reported and how it should be told. Daily press directives went out from the Propaganda Ministry to editors all over the country, directives which covered in minute detail how everything should be handled.¹³ There are, of course, no private newspapers or television or radio stations in the Soviet Union; in consequence, all news is determined by political and ideological considerations. Crashes of Soviet airplanes are not reported, for instance, and the names of those killed are never published. There is good reason for this latter practice; no record is kept of passengers on airlines. So much for the individual!

Nazis held ceremonial book burnings at universities and other places. Not only were the works of Jews consigned to the flames but also many works of Gentiles that were considered dangerous. In general, modern art and modern music were proscribed in Germany. In the Soviet Union, all access to foreign materials is limited or restricted, and all publishing houses are government controlled. Much of the same sort of art and music that was prohibited in Nazi Germany is kept from view by the Communists. Both Communists and Nazis had ideolog-

ical predilections toward "folk art," but in practice favored the classics.

Freedom of association may well be the most valuable of all freedoms. Certainly, without it all other freedoms are sterile and barren. It is the means by which voluntary cooperation takes place, by which men work together in groups to effect their ends, whether social, religious, charitable, business, or whatever. And, freedom of association is anathema to collectivism. Since all activity must be concerted, any voluntary association is suspect, or worse. It is a potential conspiracy against the state; hence, it must be broken up.

Restrictions on Association

Association with an "enemy of the people" has long been proscribed in the Soviet Union. Penalties for it range from a few years in a camp to death. But it is not possible ordinarily to know who is an "enemy of the people" until he has been convicted or sentenced. Thus, all associations are fraught with danger, even with members of one's own family, for punishment ordinarily is retroactive for association with an "enemy of the people." There are, of course, many associations in the Soviet Union, but membership in them is hardly voluntary, and they are not free. There are associations of writers, of artists, of workers, of farmers, of clergymen, and so on. It is usually

necessary to belong to the "association" in order to engage in the activity involved—to belong to the association of writers in order to get published, for example—, but the association is under the direction and control of the state. It is an instrument of state, not of its members.

The restrictions on association were never as thorough and complete in Nazi Germany as in the Soviet Union, but it hardly could be said that the Germans had freedom of association. Only one political party was permitted so that there was no choice of political association. Only one labor union was allowed, and it was government controlled. In effect, there could be no private business associations or private farmer organizations. The government penetrated and controlled these. A dissident association of clergymen ended with many of its members in prisons and concentration camps.

Especially, the Jews

The most strenuous restrictions on association were between other Germans and Jews. (Jews generally have insisted, and rightly, that they were Germans too.) The most rigorous restrictions were applied to marital and sexual relations between Gentiles and Jews, but they extended to other areas as well. Except for the aged, "German" women were

not permitted to work in Jewish households. "Jewish pupils were excluded from the state-school system, and all Jews were debarred from public swimming-pools, sports grounds and parks. . . . A typical scene took place at a Berlin green-grocer's when a four-year old Jewish girl begged her mother for some cherries; when told that fruit was excluded from the Jewish ration she ran out of the shop crying."¹⁴ It was precarious, of course, to associate with a Marxist, a pacifist, or anyone who might be anti-Hitler or anti-Nazi.

Private property is the necessary condition of individual rights. Without it, there is no place to stand against the state, and there are no means with which to protect oneself. It is well known that Russian Communists made a root and branch assault on private property. Such remnants of it as remain in the Soviet Union are privileges granted by the state, not rights belonging to the individual. The attack upon property was neither so direct nor so drastic in Nazi Germany as in the Soviet Union. The major exception was the property of Jews, much of which was confiscated. Indeed, the Nazi approach to property differed from that of revolutionary socialism. It was more nearly that of gradualist or evolutionary socialism. Hitler had declared in the middle of 1933 that henceforth he in-

tended to follow an evolutionary road. This was generally so where private property was concerned.

Empty Forms of Property

Land titles and deeds generally were left undisturbed. Individual and family holdings were likely to remain technically in the same hands as before. "Technically" is the key word here, however, for property was treated as an adjunct of the state, something to be used and disposed of in the interest of the nation. The substance of private property was drained away while the form was left more or less intact. For example, from 1937 onward shareholders could no longer participate in determination of corporate policy. Many Nazis were placed on boards of directors, and control of companies was determined by a combination of managers, Nazi Party officials, and government policy. There was a movement toward a return to primogeniture and entail for rural property, which divested the owner of the power to dispose of the property. Agriculture was controlled by what was called the Food Estate. Some of its activities are described in the following:

The Food Estate maintained a dossier on each farm, in which it entered monthly reports on the state of crops and livestock, labour force and wages, delivery obligations and actual delivery data. Intent on its self-sufficiency drive, the

regime also partly coerced and partly coaxed farmers into reducing the area under such crops as wheat, rye and—temporarily—hops in favour of beet, flax, rape and sunflowers.¹⁵

Coercion apparently extended also to farm animals, for the Food Estate prescribed that each hen should lay at least 65 eggs per year. It is unlikely, however, that Nazi Gauleiters came to the farms personally to wring the necks of non-conformist hens.

In brief, the Nazis controlled, or attempted to, the means of production and distribution of goods and services. All producers belonged to some sort of collective, one devised for the particular undertaking. These collectives, in turn, were interpenetrated and dominated by the government. Prices and wages were controlled; production quotas were set; and the unproductive were weeded out. Licensing for trades and crafts controlled the opening of new businesses. The socialist plank of the Nazi program was honored; even if it was not in the way prescribed by Marxists.

Propaganda Measures

Repressive measures were not the only means used by Nazis or Soviet Communists to draw people into the collective effort. Both regimes sought to concert all efforts by "positive" measures. There were parallels here, too. Communists employ

propaganda on a massive scale. Indeed, the language, the literature, the arts, and even the architecture is permeated with propaganda. Communists have long opposed the idea of "art for art's sake." The practical meaning of this is that art exists for ideological, political, and propagandic reasons. They are equally opposed to food for food's sake, tractors for tractors' sake, clothing for clothing's sake, sports for sports' sake, and so on. Everything that is produced and brought into being is for the glorification of communism: production is for the statistics of production (gross national product, as we would say); victories of Soviet athletes show the superiority of communism; tractors demonstrate the progress of Russia under communism. Foreign newsmen are apt to be accused of spying when they take pictures in the Soviet Union. Their offense, one suspects, is that they may get such pictures published without the propaganda gloss which is necessary to "understanding" them.

The Nazis used propaganda as vigorously and extensively as any regime ever has. Joseph Goebbels undertook to see that every medium of expression was used to glorify the Aryan race, the German people, the Nazis, and Hitler. Nazis probably were much more successful in drawing the people into and making them a part of the propaganda than

communists have been. German might became visible by way of goose-stepping soldiers marching through the streets or massing at some rally. But millions of Germans who were not in the army wore uniforms. Eventually, nearly all children belonged to the Hitler Youth between the ages of 10 and 18. There was the SA and the elite corps of SS in their uniforms. The ideal German, German history, and German exploits were depicted in song, in story, in film, on canvas and, if it could be done, in architecture. The Third Reich was supposed to last for a thousand years, a millennium, according to Nazi propaganda, and its enduring foundation was being laid by Hitler.

Commitment to Collectivism

There are too many parallels between the Nazis and Soviet Communists to be covered here. They parallel one another in such things as the Hitler Youth and Komsomol or Young Communists. Both attempted to use the schools for imbuing the young with their ideas. Both Nazi and Soviet leaders were gangsterlike in their operations. Both regimes relied on terror to consolidate and maintain their power. The list could be made longer, but surely the point emerges. The matter has been aptly summed up by Leopold Tyrmand in the opening paragraph of a chapter on "Com-

munism and Nazism: a short comparative study”:

Ruminating on this topic is generally regarded as vulgar, as something too unbecoming to be done. But why? No one really knows for sure. It is the terror of a convention. Too many people who later became respectable declared themselves Communists at some time in their lives. Those, however, who survived both Nazism and communism, without consenting to participate in either, are not versed in such subtleties. In Eastern Europe there are millions of such people, and the rule consecrated by intellectuals that communism and Hitlerism are *not* the same does not hold water with them. Because if one thinks about it unsqueamishly, pitilessly, and to the end, it is all too easy to establish their grisly similarity.¹⁶

The “grisly similarity” is a result of a similar cause: the commitment of both regimes to collectivism. The effort to produce human felicity in both cases produced widespread torment. Even grisly regimes, perhaps grisly regimes particularly, give rise to their own wry humor. Hitler was hardly a laughing matter to Jews, but their sense of humor, this last resort of the human spirit, did not entirely desert them. Here is a Jewish joke from Nazi Germany which might just as well have come from Soviet Russia:

Meeting the worried and abstracted Goldstein, Kohn tells him that Davidsohn has died. Goldstein shrugs his shoulders. “Well, if he got a chance to better himself. . . .”¹⁷ ☸

Next: 13. *World War II:
A Socialist Conflagration*

—FOOTNOTES—

¹Albert Speer, *Inside the Third Reich*, trans. by Richard and Clara Winston (New York: Avon Books, 1970), p. 181.

²Nikita Khrushchev, *Khrushchev Remembers*, trans. and ed. by Strobe Talbott (New York: Bantam, 1970), p. 614.

³*Ibid.*, p. 279.

⁴Speer, *op. cit.*, p. 137.

⁵Khrushchev, *op. cit.*, pp. 320-21.

⁶*Ibid.*, p. 648.

⁷Speer, *op. cit.*, p. 175.

⁸Vladimir Yurasov, *Parallax*, trans. by Tatiana Balkoff Drowne (New York: W. W. Norton, 1966), p. 124.

⁹Alan Bullock, *Hitler, A Study in Tyranny* (New York: Harper & Row, 1962 rev. ed.), p. 402.

¹⁰*Ibid.*, p. 401.

¹¹*Ibid.*, p. 405.

¹²Richard Grunberger, *The 12-Year Reich* (New York: Holt, Rinehart and Winston, 1971), p. 331.

¹³See *ibid.*, p. 395.

¹⁴*Ibid.*, pp. 456, 461.

¹⁵*Ibid.*, p. 163.

¹⁶Leopold Tyrmand, *The Rosa Luxemburg Contraceptives Cooperative* (New York: Macmillan, 1972), p. 165.

¹⁷Grunberger, *op. cit.*, p. 340.

DEFICITS & UNEMPLOYMENT

Henry Hazlitt

I HAVE explained in a previous article some of the harm that deficits do. Here I wish to concentrate on one thing they do not do. They do not cure unemployment.

Let us turn to segments of the historical record, year by year.

After 1930, we had cheap money, inflexible or rising wage-rates, and heavy government deficits for the next ten years. We also had mass unemployment for the next ten years—until World War II finally bailed us out:

Year	Deficit (Millions)	Percentage of Unemployment
1931	\$ 462	15.9
1932	2,735	23.6
1933	2,602	24.9
1934	3,630	21.7
1935	2,791	20.1
1936	4,425	16.9
1937	2,777	14.3
1938	1,177	19.0
1939	3,862	17.2
1940	3,095	14.6

In the foregoing tabulation, the deficits are for the fiscal years ending on June 30; the unemployment is an average of the full calendar year. These deficits may not seem large in comparison with the sums to which we have recently become accustomed, but they were not trivial in their time. As the average annual deficit for the period was \$2.8 billion, and the average expenditure \$6.7 billion, the deficits averaged 42 per cent of total expenditures. Translated into other terms, the \$2.8 billion average was 3.6 per cent of the gross national product of the period. The same percentage of the gross national product of 1976 would be equivalent to a deficit of \$60.9 billion.

Henry Hazlitt, noted economist, author, editor, reviewer and columnist, is well known to readers of the *New York Times*, *Newsweek*, *The Freeman*, *Baron's*, *Human Events* and many others. Best known of his books are *Economics in One Lesson*, *The Failure of the "New Economics,"* *The Foundations of Morality*, and *What You Should Know About Inflation*.

Now let us look at the record from 1960 through 1976:

Year	Deficit (Millions)	Percentage of Unemployment
1960	\$ 269 <i>Surplus</i>	5.5
1961	3,406	6.7
1962	7,137	5.5
1963	4,751	5.7
1964	5,922	5.2
1965	1,596	4.5
1966	3,796	3.8
1967	8,702	3.8
1968	25,161	3.6
1969	3,236 <i>Surplus</i>	3.5
1970	2,845	4.9
1971	23,033	5.9
1972	23,372	5.6
1973	14,849	4.9
1974	4,668	5.6
1975	45,108	8.5
1976	66,461	7.7

Sources: The Budget of the United States Government, 1978, p. 437. Economic Report of the President, January, 1977, p. 221.

There are so many factors operating at all times in a national economy, and so many conditions, in particular, helping to determine the overall rate of employment or unemployment, that a simple statistical comparison like the foregoing does not "prove" anything beyond

dispute. But on their face the figures hardly tend to show that deficits, even massive ones, prevent or reduce unemployment. On the contrary, the higher the deficits in the foregoing table, the worse the unemployment record.

The average unemployment in this country over a long period of years has been a shade under 5 per cent. In the six years beginning 1971, when massive chronic deficits set in, the unemployment rate averaged 6.36 per cent, and higher in the two years when the deficits were highest.

It is interesting that in the sixteen years following 1960, there was a surplus in only one year—1969—and in that year unemployment was the lowest shown in the table.

A coincidence, no doubt. But one of the worst consequences of the fixed Keynesian myth that deficit spending cures unemployment is not only that it promotes reckless government spending and monetary inflation, but that it systematically deflects attention from a study of the real causes of unemployment—excessive union wage-rates, minimum wage laws, prolonged unemployment insurance, and a score of other social programs that diminish the incentives for men to accept market wages or to look for work. ☞

Ronald J. Berkheimer

The Failure of the “New Economics”

BACK in 1959 there came into print a book which might have changed our world. In painstaking detail, it refuted all the premises of the most influential book on economics since Marx, John Maynard Keynes' *General Theory of Employment, Interest and Money*, first published in 1936. Other well-known free market economists had attacked Keynes, but this was the first full length analysis, almost sentence by sentence, of Keynes' chief work.

Yet Van Nostrand's original edition of Henry Hazlitt's *The Failure of the "New Economics"* sold no more than 5,000 copies and a 1973 edition by Arlington has added only 7,000 more. In a world largely controlled by words, why has an apparently monumental work been so completely ignored?

Mr. Berkheimer is a retired chemical engineer who is now engaged in volunteer work with nonprofit, non-partisan organizations.

To answer this question we must first look at what Keynesian economics is all about.

Although the writing of Keynes (pronounced "Kanes") is complicated and contradictory, Hazlitt has reduced it to something quite simple. He finds it largely a rehash of mercantilism, a centuries old theory that when business is bad it is due to (1) a scarcity of money, and (2) general overproduction. The first of these is one of the old, populist easy-money theories which still persists to some extent in Congress 200 years after it was first destroyed by Adam Smith. If it were valid, the underdeveloped nations would only need to print large quantities of paper money in order to have instant prosperity.

Jean Baptiste Say, the French economist, disproved the overproduction fallacy with his Law of the Markets in 1803. He pointed out

KEYNES is unsuccessful in his attempt to deny the most strongly established principle in economics—that if the price of any commodity or service is kept too high (*i.e.*, above the point of equilibrium) some of that commodity or service will remain unused or unsold. When wage-rates are too high there will be unemployment.

Adjusting the myriad wage-rates to their respective equilibrium points may not always be in itself a *sufficient* step to the restoration of full employment, but it is an absolutely *necessary* step. Keynes tried to substitute general monetary inflation for piecemeal wage-and-price adjustment. But without proper wage-price coördination, inflation cannot bring full employment.

HENRY HAZLITT

that supply creates demand, if not for itself, then for something else. Nobody produces anything except to consume it or exchange it for something else to consume. Therefore, since demand is essentially unlimited, there can never be more than a temporary oversupply of some commodities. This is logical, though few of us non-economists would have thought of it in this way.

Errors Abound

Yet, 130 years after Say, Keynes came out with his essentially mercantile theories as if they were something new, and he became famous, as Hazlitt puts it, by "refuting" Say's Law by simply saying it was untrue.

Another feature of Keynes' *General Theory* is his consistent refusal to attribute any blame for unemployment to inflated wage rates. In so doing, Hazlitt says, Keynes is unsuccessfully attempting "to deny the most strongly established principle in economics—that if the price of any commodity or service is kept too high (*i.e.* above the point of equilibrium) some of that commodity or service will remain unused or unsold. When wage rates are too high there will be unemployment."

How could a man so obviously erroneous in his theories have been so influential, be made a lord, and convert to Keynesianism, among others, Presidents Franklin Roosevelt and Richard Nixon and

some of President Carter's current advisers?

Let us look at the political and economic climate of the times the *General Theory* appeared and the years since. On a world in the darkness of a general depression, the book burst like a skyrocket (with just about as much permanent light). Keynes had an easy way to bring back prosperity. Just have the government spend more money, putting it in the hands of people who would immediately put it into circulation, thus "greasing the wheels of industry." No matter that the government didn't have the money to spend—just borrow it, or print it. So this deficit spending creates inflation? Better that than to fail to "do something."

Deficit Spending

Keynes did not originate deficit spending; the U.S. had already been doing it for several years. But, as a supposedly brilliant economist, he legitimized it and has insulated it against reality for many years up to and including the present.

Since Keynesianism has the unreasoning support of the big spenders among the politicians and bureaucrats, the higher-wage advocates of the unions, and the left-leaning media, one can easily see why Hazlitt's book, which undermined some of their most basic beliefs, got the silent treatment. In the

old days, they would have burned it. Now, with their power over the communication channels, they have simply ignored it.

An awakening to the fact of *The Failure of the "New Economics"* might revolutionize our society. We might get unionized labor back in the free market and solve the unemployment problem at the same time. We might balance the Federal budget in short order and set an example for the rest of the world in the control of inflation.

Is it too late for this to happen?

True, we are far down the road to socialism. But there are hopeful signs. More and more frequently we read of growing doubts about Keynesianism.

Was it Shakespeare who said, "Truth will out"?

Let it be soon!



Editor's Note: Arlington House recently has brought forth a new printing of *The Failure of the "New Economics"* (\$11.95), as well as the companion volume compiled and edited by Mr. Hazlitt, *The Critics of Keynesian Economics* (\$9.95).

Either book is available and may be ordered from The Foundation for Economic Education, Inc., Irvington-on-Hudson, N.Y. 10533.



Daniel Patrick Doyle

Helped by THE INVISIBLE HAND

ARE you one of those who lobbies for National Health Insurance and yet shudders at the thought of putting a bedpan under a sick person? Do you constantly squeak out noises about "the whole rotten system" and its Satanic conspiracy to *never* listen to your whining? Do you find your spiritual experience in some hell on earth? Do you eat too much with money given to you for dreaming up new ways to redistribute the wealth? Are you a middle class art major who lectures his father on the terminal inferiority of money and work while helping yourself to a dessert that *he* paid for by his working? Does a person who is too acute

to grasp the obtuseness of Marcuse qualify for you as a fitting victim of a terrorist bombing?

Well, if you are, then please read the following because it just may save you from a horrible fate.

Although initially I was highly skeptical, very shortly I personally verified the existence and superior economic (and personal) efficacy of The Invisible Hand of the free market. This natural mechanism is really present and operating with greater success than any other economic system, even in spite of wasteful Federal controls. The free market is benevolent in both the proximate and ultimate senses of the word. More than decisively demonstrating the necessity and merit of individual initiative, the private enterprise system also distinguishes between quality effort and medioc-

Mr. Doyle, of Jennings, Missouri, finds the flaws in his liberal progressive education being corrected by the precious freedom that allows Adam Smith and John Dewey to compete for readers in the same library.

richly and rewards and penalizes them accordingly. Its very impersonality enables the free market to offer optimum opportunity for personal input into one's work, leisure and relationships.

All of the above is true! I assert it without doubt or guile and with the confident pleasure of an Olympic sprinter enjoying his race too much to ponder the physiological processes involved in his performance. Like him, I know that a Gold Medal is more than just the sum of the chemical phenomena in his running body. No, an achievement, any achievement, is much, much more than that.

In my own case, a year of healing exposure to the natural tonics of hard work, competition, thrift and the pleasure of earning on the level of my ability was a *real* therapy. It gave me the self-confidence, improved lifestyle and happiness that pills, shock treatments and state-subsidized psychiatry had never given me.

I lost over 100 pounds of morbid fat. I quit drinking and smoking. That haunted look has left my eyes. I no longer weep wretchedly for a minimum of an hour a day. I now sleep soundly and manage well with five hours per night, less than half of the minimum twelve hours per day that I used to spend in frightened, protective slumber that was more

anesthesia than rest. I now work full-time. I attend college two nights a week and karate lessons another two nights. On weekends, I have fun—good, clean, healthy fun—instead of my former neurotic pursuit of a religious experience in depravities and mutually lacerating personal relationships.

My family, friends and old acquaintances have all been dumbstruck by the sight of Dan Doyle out of his rut, out of bed before noon, off his back and on his feet all day, out of his ivory tower and *doing* something positive instead of bitterly cursing every passing atom so ill-mannered as to exist in the same universe with him. And just imagine! My body is now lean, hard and full of energy! My mind is on *this* side of the grave, for a welcome change! I have joined the living and I love it!

Before, a minor discourtesy from a grocery clerk would sink me into a week of depression and squirming, destructive fantasies. Now I smile and laugh at such things and I usually say a kind word that will have the person confiding in me the reason why he or she insulted an undeserving stranger in the first place.

How did it all happen? What was the stimulus? Who or what do I thank? Well, several people and many things, but mostly I credit the experience of competition and the

opportunity to try and fail, and discover myself still alive, and then try again and again and finally succeed. I thank the exhilaration of exerting my muscle and mind against the real world *and* the rich, full, happy feeling that came from punching out at the end of my shift and leaving the baling room filled up with neatly packed, tightly wired, 500-pound bales of trash standing in symmetrical rows against the walls. To me, my daily transformation of loose, randomly dropped mountains of trash into disposable units was the embodiment of utilitarian beauty!

Yes, I was a trashman! For Sears, J. C. Penney and other companies. And doubt it if you will, but the trash challenged me! It motivated me! I unearthed a treasury of wisdom coming down the chute at Sears! The cardboard, the paper, the wood and glass and other waste did not quote to me from famous literary nihilisms. The trash did not argue or debate or score points or use wit, nor did it listen to me do those things.

No, the trash just resisted me. Its prolonged presence and magnification in the absence of my labor on it—well, those things contained personal implications that challenged me. Trash just lay there in a disorganized heap that would not bale itself and would inevitably get bigger and bigger until it accumulated to such an unwieldy magnitude that

it would catch my boss's corrective eye. My neglect of it would finally cause me more problems than had I steadily packed it in an ongoing manner as it came down the chute during the day. In other words, trash—baled and stacked—meant: a) keeping my job and income; b) continued opportunity to save money for the future, *my* future that I now chose to look forward to. Take away the trash and a dismal hole opened in which to throw myself and not even make a sound. Trash translated itself into a convincing argument.

So, on my very first day of my new job, I decided that: "Yes, I am frustrated and yes, I am getting even more aggravated by this job, *but* since I presently lack the skills and experience to secure something better, *I* will stay *right here* and *grow up* and *right now!* I will convert my tensions into a personal gain, and change anxiety and anger into a paycheck. I will transform this knotted-up Minus in my seething insides into a Plus! Instead of daydreaming about maximums, I will *do* something with minimums! Besides, it feels 100 per cent better to be awake with sweat and sore muscles than to be dead asleep because my idle melancholy and morbidity caused consciousness to lose its attraction!"

So, I stayed and I worked hard! I

learned to listen and talk to people. I learned to accept authority without resentment, to *not* fear a co-worker with bigger muscles and *not* to bully one smaller than I am. I learned to smile and laugh naturally and spontaneously, to kid around without getting serious and to be serious without kidding around. And, in my free time, I worked out in a gym instead of overeating. And I drove out into the country and walked around among the lilies of the field and *really* considered them instead of reading the articulate illiteracy and adolescent pretensions in the self-improvement books. I enjoy the lilies, but I do *not* envy them. Comparisons between men and women and flowers are impossible. I live by my own thought and labor. I advance in direct relation to the quality of my judgment and work. And my happiness is powered primarily by my simple confession that only death does not require daily maintenance and growth. Since trash *does* require them, then trash is an integral positive of life to be valued in hierarchy, like all other things.

Deny the necessity of trash and

you negate the dignity of the human beings who create it *and* other things. If you weep bitter metaphysical tears over soggy cardboard, then you cannot legitimately thrill to Cyrano de Bergerac, the Sistene Chapel or Bach! If you find misery in so living, it is because you have not yet discovered life—life from more than one isolated, negatively self-centered perspective. It is because you have run away into the psychic limbo of infinite questioning, eternal doubting and that deathly paralysis of not *choosing to choose*!

Why does Sartre want to trade his sentiency for the inanimacy of a doorknob? Because he is jealous of it! He is so undecided as to his own humanity because he has never exercised it! You cannot eat as much cake (and everything else) as he does and still have your starving workers revolution too!

In a little baby's power to fall down, get up and go on chasing after a puppy, there is more authentic commitment than in all the verbose volumes scrawled by a lifelong old man who has never changed a diaper. ☯

Two Hands Better Than One

IDEAS ON



LIBERTY

HE that gives good advice, builds with one hand; he that gives good council and example, builds with both; but he that gives good admonition and bad example, builds with one hand and pulls down with the other.

FRANCIS BACON

THE DIVISION OF KNOWLEDGE

IN the 1930's and 1940's, F. A. Hayek wrote a pioneering series of essays describing how free market prices communicate knowledge.¹ More recently, Israel M. Kirzner reinforced and extended Hayek's arguments.² If Hayek and Kirzner are correct—and I believe they are—the free market is the most efficient economic system because it most fully utilizes the knowledge dispersed among the individual members of society.

Every individual possesses a wealth of knowledge known to him

alone. A complete list would include personal memories, innermost beliefs, and unspoken ambitions. However, only two types of such private knowledge will concern us here. One type is preferences, particularly consumer preferences. A consumer's preferences are generally unknown to others until he discloses them by choosing one product over another. Similarly, a worker's occupational preferences are revealed when he pursues a particular job. An individual's preferences are his private knowledge until his actions reveal them.

The second type of private knowledge we will consider is that which comes from being in a unique situation—the knowledge of the “man on the spot.” For instance, a gas station operator knows his workers' skills, their personalities,

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¹Collected in *Individualism and Economic Order* (University of Chicago Press, 1948).

²See especially *Competition and Entrepreneurship* (University of Chicago Press, 1973) and *Market Theory and the Price System* (D. Van Nostrand, 1963).

how well various workers get along with one another, where to hire part-time help, which equipment is in good condition and which is likely to need repair, where to get spare parts, where to get stock if supplies are interrupted, when business is likely to be busy and when it is likely to be slow, his customers' particular needs, and the like. Such information is known to the operator plus perhaps a few immediate acquaintances.

The gas station operator possesses essentially private knowledge because he is in a unique situation, at a unique location, dealing with unique individuals and equipment. Clearly, efficient production requires that production decisions somehow take into account the operator's knowledge of particular circumstances as well as the unique knowledge of other such "men on the spot."

But, efficiency requires more than that production decisions be based on private knowledge. There must exist a means by which each producer's decisions tend to coordinate with the decisions of all the other producers and consumers in society.

The Role of the Market

On the face of it, this appears impossible. How is an individual to coordinate his decisions with the decisions of millions of other people when their decisions are at least

partly based on private knowledge which he doesn't possess?

This cannot be achieved by central planning—socialism—because the knowledge of millions of individuals cannot be concentrated at a single point. In fact, the private knowledge we have been considering is knowledge which by its very nature cannot enter into statistics and thus cannot be conveyed to a government planner in statistical form. What government statistics do convey are aggregates and averages which lump together, as resources of the same kind, items which differ in quality, age, location, and other particulars. Such statistics are of little use to someone who may, for instance, need a certain kind of ball bearing, and have no need for data on the nation's yearly output of ball bearings.

To fully appreciate these problems, we need to consider how production and consumption decisions are coordinated in a free market.

Suppose we are in a free market in which a new use is discovered for copper. Almost immediately, the market begins to adjust. Copper miners start producing more copper, current users of copper begin to substitute other resources, producers of substitute resources adjust their outputs, producers of substitutes for the substitute resources change their production plans, and on and on throughout the market.

Prices Tell the Story

In a free market all these changes occur, not because everyone is informed about the new use for copper, but because the price of copper tends to rise. Most people do not know why there is an increased demand for copper; they do not know where or for what use the copper is needed; they do not know who is buying the copper; nor do they know his race, sex, politics, or religion—factors a socialist allocator of resources might take into account. Free market prices are an impersonal means of communicating knowledge. They provide the individual with all he needs to know to coordinate his production and consumption decisions with those of his fellow men—without knowing anything about their particular decisions!

For example, if a scarce commodity is in great demand, its price is high. The high price encourages people to make careful use of the commodity—which is precisely what potential users would want them to do—without being aware of who is demanding the commodity or what the total supply happens to be. In fact, for many commodities, such as natural resources, no one knows the total supply or the identities of all the potential users.

If a commodity's price is low because of low demand and large supply, people will make freer use of the commodity—without being ordered

by a central authority and without knowing why demand is low and supply is high.

Free market prices give each individual at least some idea of what others are likely to offer for his products. The "going market price" is an invaluable aid in planning production and consumption. For commodities traded by speculators, futures prices are a further aid. In most cases, the manufacturer can plan production without performing extensive marketing research, i.e., without canvassing the public, finding his potential customers, and asking them what they would be willing to offer for this or that product.

Free market prices also tell a businessman the relative importance others place on the factors of production (natural resources, labor, and capital goods) which he can use in supplying other people's needs. The businessman is spared the monumental task of locating all those who are interested in using each factor of production, determining the relative importance of each factor to each potential user, and somehow forming an aggregate that expresses—in one number—the "total importance" they place on each particular factor.

In a free market, the contribution of each particular factor of production—each unit of labor, each unit of natural resources, each capital

good—is evaluated according to how much the factor adds to production, and the expected selling price of the product. Hence, the contribution of each factor depends on how it is employed. Efficient production requires that each factor be employed where it makes the greatest contribution.

Errors to be Corrected

Because knowledge is divided among millions of individuals, with no one knowing more than a tiny part, factors of production often are employed where they make less than the maximum contribution. A manufacturer may be unaware that a factor could make a greater contribution in another employment. Those who know of other employments may be unaware of the availability of the factor, or even of its existence.

To correct these misallocations of scarce resources, we need a system that (1) provides a means of discovering misallocations, (2) stimulates people to use the means of discovery, (3) encourages people to transfer control of resources to manufacturers who have discovered misallocations, and (4) rewards the correction of misallocations.

All this is accomplished by the free market profit and loss system.

Suppose, for example, copper is being used to make products on which consumers place low values,

and/or it is being used where each ton of copper contributes little to physical output. In these cases, each ton of copper makes only a small contribution to the revenues of the manufacturer using it. As a result, manufacturers place low values on copper, and it can be obtained for a low price.

Suppose an entrepreneur surveys this situation and discovers what he believes to be a more profitable way of using copper—by making a product which he hopes consumers will value highly and/or by using a method of production which gets more output per unit input. If he is wrong—and has overestimated the prices consumers will pay and/or underestimated his expenses—he will fare no better than most other manufacturers and have little impact on the market.

If he is right, however, he will earn high profits because each ton of copper will make a large contribution to his revenues. His profits will encourage and enable him to expand production, and he will bid more and more copper away from other manufacturers. Other businessmen will notice his profits, stop using copper in the old and relatively unproductive employments, and start copying his use of copper. In the process, competitive bidding will tend to raise the price of copper to reflect its new, more productive use. At the same time, increased output will tend to

reduce the price of the entrepreneur's product. Competition assures that the entrepreneur has no guarantee of permanent profits.

This, in essence, is how misallocations are discovered and corrected by profit-seeking manufacturers. Production is most efficient when each factor of production is making the greatest possible contribution. By moving factors to more productive uses, manufacturers earn profits.

Thus, in a free market anyone can determine a manufacturer's efficiency by examining his profit and loss statement. Under socialism, there is no comparable test for efficiency.

Of course, many businessmen are not manufacturers. Many of them are middlemen who use their special knowledge of market conditions to "bring together" buyers and sellers who are unaware of one another's willingness to exchange. A consumer cannot enjoy a product if he doesn't know of its existence or of its availability at an acceptable price. Middlemen are "men on the spot" who perform a vital role in reducing ignorance.

Competition

Advertising performs a similar role. A businessman cannot correct a misallocation if consumers don't know about his product. It is not enough to offer consumers better

deals; they must be made aware of the better deals. Hence, advertising is colorful, humorous, shrill, repetitive—whatever it takes to attract consumers' attention. In the process, consumers learn about products, businessmen learn about consumer preferences, and consumers often learn something about their own preferences.

Many people attack certain profits (but never losses) as "excessive." But, in a free market, so-called "excessive" profits mean that an "excessive" misallocation of scarce resources is being corrected. Attacking profits is attacking the very process that exposes and corrects misallocations.

Many socialists contend that the competitive processes just described are wasteful because competition results in "needless duplication." A socialist sees two producers making similar products and immediately concludes that one of them is superfluous. But which one would the socialist close down? Each producer is trying to earn profits by using each factor of production where it makes the greatest contribution. No one knows which one will be the more successful. Of course, anyone can look back fifty years and assert which producers were the most successful. But, no one can look forward and know, before the fact, which producer will prove to be the most efficient. That will have to be de-

cided, in time, by the same competitive processes socialists condemn.

Perhaps some socialists have been misled by the idea that "the market is a computer." Maybe they think they can improve upon this "computer." But a computer uses data that is all "given" to a single operator. The market, on the other hand, is a means of communicating millions of pieces of information, each of which is known by at most a few individuals. The "computer" analogy is an unfortunate error.

Any government intervention disrupts the market process. Government interference with free market pricing must, by its very nature, not only prevent misallocations from being revealed, but also create new

ones. Other interventions—such as taxes on profits, monopoly privileges, tariffs, and subsidies to inefficient producers—prevent misallocations from being corrected.

The free market pricing system is the only viable means of communicating many forms of knowledge, particularly consumer preferences and their influence on the use of scarce resources. In a free market, each price represents millions of pieces of knowledge, with no one knowing more than a few of the pieces. In a command economy this communication breaks down, and "prices" reflect the ignorance, fears, and political aspirations of the authorities in power. ⊕

Efficient and Voluntary

THE price system has two outstanding features. First, it is by all odds the most efficient system of social organization ever conceived. It makes it possible for huge multitudes to cooperate effectively, multitudes who may hardly know of each other's existence, or whose personal attitudes toward one another may be indifference or hostility. Second, it affords a maximum of individual freedom and a minimum of coercion. And since people can cooperate effectively in production even when their attitudes on other issues are hostile, there is no need for unity and conformity in religion, politics, recreation, and language—or even in patriotism and good will except in the very broadest sense.

IDEAS ON



LIBERTY

W. ALLEN WALLIS, "The Price System"

FREEDOM IS INDIVISIBLE

MANY opponents of nationalized medicine question its workability, while surrendering the foundation upon which it would rest. They have yielded to the philosophical premise that medical care, like education, ought to be available to everyone as his right. They subscribe to the notion that certain services are the proper concern of government, which must control and regulate them, or even provide them for the benefit of all. While they embrace the principle of political control of some industries, and political readjustments of individual income and wealth, they find it disturbing when politics finally turns its attention to their particular profession. "But we are different," they tell us. "Medical

care is too important to be subjected to bureaucratic regulation and control. Its quality will decline and its expenses will soar."

Such arguments are not persuasive once you accept government as the regulator of our economic affairs and the guarantor of economic well-being. There are differences between public education and public health. But if government is expected to provide the former because public education is said to be so beneficial for all, why should government not provide an equal, or even more beneficial, service to public health? If an army of public school teachers can render valuable services to public education, can not an army of physicians, under similar employment conditions, render equally valuable services to public health? There are technical differences: the education of our children is imparted collectively to small

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groups assembled in public buildings, while medical care in most cases is provided individually in non-public buildings. A surgeon operates on patients one at a time. But such differences do not explain why government should be more concerned about education than it is about medical care.

In the United States, government pays for all or part of the medical care for some 70 million persons—veterans, Medicare and Medicaid recipients, members of the armed forces, and others. Thus, government is already providing limited nationalized medicine to vast numbers of people. If this is fair and equitable, if this is the proper function of government for 70 million people, why should it be so outrageous for 200 million Americans?

The answer is simple: one practice is as bad as the other. But the multiplication of government services to more and more people is multiplying the evil, which must prevail in the end. This is why we should regret and oppose each and every step toward a provider society, the national education system as well as a national health system, and all others.

We should deny the philosophical premise of the welfare state that education, medical care, and the like ought to be available to all as a matter of right. There is no such

right in nature nor in the realm of human action. The right to services and benefits, which so many are proclaiming today, is merely the right to seize income and wealth from other individuals through the body politic. The right of one is the duty of another, the benefit of one is the loss of another. The right to services and benefits actually is the right to tax and confiscate, which not only negates someone else's rights to his own labor and freedom, but also jeopardizes peaceful and harmonious social cooperation. A society that creates such rights becomes a conflict society in which political might is the source of all rights. And the rights of some become the tyranny of others.

The physician who readily accepts the transfer system in education, transportation, communication, or urban redevelopment must find it very difficult to prove why medical care should not be redeveloped according to similar plans. The dentist who, as a student at a state college and state dental school, applauded massive redistribution through public education, cannot logically oppose more transfer through public medical care.

But who wants to be logical in such matters? The physician who clamors for a million dollar Federal grant to his community hospital may resent the half-million dollar

grant to the new community center. The industrialist with a multimillion dollar Federal loan may be indignant about the food stamps that enrich the idle paupers. And the Social Security beneficiary who is anxiously awaiting another raise is loudly condemning Federal aid to higher education. In the end, they all may perish in the sinking ship, even the innocent passengers.

To defend individual freedom successfully we must rally to the defense of all professional and economic freedoms. To reverse the long trend toward political power and economic conflict, we must turn away from government as a convenient source of rights and benefits, and once again rely on individual effort and initiative to solve our problems. And lest we be suspect of insincerity in the defense of freedom—that we seek it whenever it presumably favors us, but prefer government regulation and control whenever they promise benefits to us—we must be uncompromisingly consistent. In particular, we must show the way by shunning and relinquishing all rights and privileges that favor our own profession. The college professor must reject the Federal research grant offered to him, and the physician the Federal subsidy to the community hospital.

Some government favors were granted in the distant past, which

are now taken to be unquestioned prerogatives of the profession. Old license and accreditation procedures force the student of law to attend a school accredited by the American Bar Association, and then seek admission to a state bar after passing a mandatory state examination. The procedure anchored in state legislation shelters the attorneys in each state from competition not only by unlicensed practitioners but also by other attorneys properly licensed in other states. Of course, the legislation was passed in order to safeguard and improve the quality of legal services to the citizenry. But unfortunately it also greatly reduces the number of attorneys available in each state, necessitates more labor reaching across state lines, and otherwise raises the costs of legal services and the incomes of the properly trained and licensed attorneys at law. While we need not question the motivation of the quality legislation, its effects cast doubt on the stated objectives of bar associations and their recommendations for further legislation toward professional improvements.

To question the state license procedures for schools, members, and their places of work is like questioning the very existence of the profession. But where government is the acknowledged author of license and livelihood, it can also author a national health system. ⊕

Joe Hochderffer



HEALTH PLANNING IN FORT WAYNE— The Six Million Dollar Fizzle

FEDERAL health planning has cost our community more than six million dollars in inflated construction costs, a two-year denial of needed hospital facilities, and a confused, divided citizenry.

This year the Northern Indiana Health Systems Agency, a creature of Public Law 93-641, the health planning law, expects to become one of the nation's first HSAs to receive "full designation" as a health planning agency by HEW.

The Fort Wayne story began shortly after Federal health planning became the law of the land. This was the result of a 1971 law, PL 92-603, which created Health Planning Councils. PL 92-603 was

passed to correct the blunders of a previous Congress which, in 1965, created Medicare and Medicaid.

In the summer of 1973 Fort Wayne was a placid community of 170,000 people earning higher than average incomes and served by six shopping centers, five McDonalds, two Holiday Inns, and three general community hospitals. Not one in a thousand residents was aware that his tax dollars supported the newly formed Health Planning Council (HPC), staffed by a handful of planners and secretaries whose paychecks came circuitously from HEW.

The health planners were making speeches about the plan they were going to create for our nine-county Health Planning Area when, suddenly, two separate groups of physicians presented them with proposals to build additional hospitals in Fort

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Wayne. The need for additional facilities was well known to a community accustomed to overflowing hospitals.

Federal procedure called for the planners to consider whether or not a proposal fit the overall community health plan. And there was no such plan. So the planners determined within a few weeks that Fort Wayne needed 156 medical-surgical beds.

A Health Planning Council, which by law must be composed of more health care "consumers" than "providers," started a series of deliberations. After weeks of testimony and hearings, the consumer-dominated body approved one proposal and forwarded it to the State Board of Health for final action. The other they sent to the State Board of Health without recommendation. Thus a local controversy was transferred to the State Board of Health for resolution.

The state board dug out its guidelines and discovered that any proposal it approved must conform to a State Plan, which was a creature of the Hill-Burton Act. Under the State Plan, Fort Wayne was allotted three hospitals—and they already existed.

"What about those three hospitals?" the state board asked. "Did they plan to do anything about the hospital bed shortage in Fort Wayne?"

As a matter of fact, they did.

Head Start

Each hospital had expansion plans on the drawing boards when the health planning legislation was passed. Being more familiar with the law than others (because they had to be), the hospitals had been waiting for the HPC to develop its master plan before submitting expansion proposals.

Now the State Board of Health asked the hospitals if they could add 156 beds more economically than could the backers of new hospitals.

Yes, they could.

The reason was simple: new hospitals had to build laboratories, x-ray departments, kitchens, pharmacies, and laundries to serve their beds; existing hospitals already had such ancillary services and needed only to utilize them more fully or enlarge them.

During the next several months as the local HPC again went through a long series of meetings to consider plans of the existing hospitals, promoters of new hospitals debated board members and administrators of existing hospitals. And the public got a picture of three giant hospitals conspiring to gain a monopoly and to strangle any attempt to build a fourth hospital in Fort Wayne.

The public still had the idea that we were under the free enterprise system. They believed that if a group of people wanted to build a

hospital, and had the wherewithal to do it, they should be able to.

The public was not aware that when it turned the hospital care of its senior citizens over to Medicare free enterprise went out the window. If you do not get HPC approval of your capital outlays, the law states, you cannot count those expenditures as legitimate costs when the government reimburses you for Medicare/Medicaid patients.

So existing hospitals and backers of new ones were forced to seek HPC approval for new facilities. Since there was a magic quota fixed by master planners on the number of beds needed, existing hospitals could win only at the expense of new hospitals, and new hospitals could win only if old hospitals were denied expansion plans. What was in reality a battle of "hospitals versus Federal quotas" appeared to be "hospitals versus hospitals."

Action Delayed

When the smoke cleared six months later, existing hospitals were allowed to expand. They could add new beds more economically than a new hospital could build them.

But that was not the stated reason for the decision. The stated reason was that the State Plan called for only three hospitals in Fort Wayne and therefore a fourth one could not be built. This seemed ridiculous to a

public that had had no previous knowledge of health planning laws and regulations.

There followed two years of lawsuits by new hospital backers, during which time existing hospitals were enjoined from carrying out expansion plans. And inflation hurried on, unrestrained.

The appeals process was not exhausted until late 1976, when the fourth hospital backers had clearly lost. Nobody in Fort Wayne felt good about the whole matter. I work for one of the existing hospitals, the alleged winners, and there's a dirty taste in my mouth.

True, our present three hospitals can build and operate new beds more economically than could a new hospital. But the Federal planning process created a divided medical staff at our hospital, caused bitter animosities within the community, wasted thousands of hours and millions of dollars, and after four years has not yet produced a single new hospital bed in Fort Wayne.

That was all under the old planning law, 92-603. Now we have a new law, PL 93-641, that is much more restrictive.

It mandates "consumer" domination of HSA boards. On the surface this is not much different from PL 92-603. That law required "consumers" to comprise at least 51% of planning boards; "providers" of health care (doctors, dentists,

nurses, hospital administrators) comprised the remaining 49%. A "provider" was defined as anyone who derived a major portion of his income from providing health services. The new law is different. It broadens the definition of "provider" to include anyone who has even remote connections with a medical institution. Hospital board members, for example, who usually serve without pay and who derive their income from other sources, are classified as "providers." People who sell health insurance are "providers." Thus the effect of the new law is to insure domination on planning agency boards of persons wholly ignorant of medical care. In practice, these people become dependent upon the professional planners employed by HEW to guide them in the decision-making process.

A New Base of Power

The new law further removes the power base from the local community. PL 92-603 had shifted the planning base from the community to a multi-county district. PL 93-641 eliminates these small districts and creates large ones. Our HSA covers one-third of Indiana, from the Chicago suburbs to the farmlands of northeastern Indiana.

PL 93-641 mandates planning. No hospital (or any other business) ever survived without planning, so what's new? Now the planning must

meet the approval of HEW bureaucrats.

The new law eventually substitutes Federal power for state power. Under previous laws, final decision-making was done by state boards of health. Under PL 93-641, as soon as the HSA receives "full designation," it becomes the final authority.

Ours was one of the three Fort Wayne hospitals asked to submit plans and cost estimates for adding beds back when the Health Planning Council was considering applications for new hospitals in the city. On our drawing boards at that time (1973) was a large project to expand certain service departments such as x-ray, laboratory, and dietary which our hospital had outgrown. We were also considering additional beds, but those plans were not as well-developed nor was the need so pressing as that of the ancillary department expansion.

An Efficient Business

In its 20-year history our hospital had grown from 250 beds to a 600-bed regional referral center. We were one of the most successful and financially sound hospitals in the nation. We had consistently operated at high occupancy (over 90%), had engaged in six expansion projects and paid for them without incurring major debt, and were charging our patients \$10 a day below the

state average and \$30 a day under national averages. In American Hospital Association records we could find no hospital in our class operating as inexpensively as we were.

In 1970 we had added 56 beds and paid for it out of operations. In 1973 we needed to expand ancillary departments to handle the increased capacity, as well as the burgeoning growth of outpatient business.

When the planners asked us how much it would cost to add new beds, we had to speed up the planning process for beds and delay the ancillary expansion plans. We asked if we should submit both proposals at once, because our most pressing need was for ancillary, not bed, expansion.

No, said the planners, that would cloud the issue. Just tell us how much the beds would cost.

Okay, we said, but we can't add beds without expanding service departments. The new beds will mean that we must enlarge our ancillary areas slightly more than our existing plans call for. How will we show that in our proposal for new beds?

Just take a percentage of your ancillary expansion needs and tack that onto your bed proposal, said the planners.

So we did. It was backwards planning as far as we were concerned, but we did it the way the planners told us.

Our bed proposal was approved, including the percentages of upcoming ancillary expansion, plans which had not yet been submitted. Then followed the two years of lawsuits and injunctions, during which time we had undersized service departments to accommodate growing numbers of patients. We could not proceed with ancillary expansion, because the size of that expansion depended on whether or not we received final approval for the new beds.

New Planners for Old

During the waiting period, PL 93-641 replaced PL 92-603 as the Federal health planning law. Old health planning boards were replaced with large new ones. New bureaucrats moved into the wealth of new Federal jobs created. And when the court decision finally freed us to add the beds, we faced a new agency with a new set of rules in trying to get approval for ancillary expansion.

We brought our ancillary expansion proposal before them.

Our hospital, with its one part-time planner (me), faced a new agency with a staff of 25 planners.

"How many meals do you produce per square foot?" they asked. "Why is the volume of x-rays performed so much higher on the day shift than on the night shift? Can you fully document the need for 2,750 more

square feet of surgery? Why not 1,375 square feet?"

Thus began a six-month ordeal to try to get facilities to serve patients who had been denied them too long.

What evolved was an 80-page application plus a 40-page financial feasibility study conducted by independent auditors. The fourth draft of this document was accepted as adequate.

Following Federal guidelines to the letter, we met with the HSA staff a given number of days before the board hearing was to be held. They informed us that the staff would recommend our project be rejected.

Why? we asked.

Because it does not meet Federal mandates to contain costs, they replied.

But, we protested, our hospital has the best cost record in the country. It would seem that you would want to encourage operations such as ours.

True, they said, you have a good cost record. But we have no assurance that it will continue.

During the next hour our board members and administration made almost no impression on the HSA staff. So we decided to take our case to their board anyway.

Our presentation before the board convinced them that our project was deserving and financially feasible. We were able to demonstrate that,

even with proposed expansion, our square footages were below the ranges the planners had used. Even with construction and financing costs added, our rates would still be far under state and national averages.

The board went against its own staff and approved us.

But, we were to discover, the fight had just begun.

Proposal Rejected

The group that endorsed our project was known as a "sub-area council." The next step was to get approval before the executive committee of the Northern Indiana Health Systems Agency. This was a small committee, most of whose members lived more than a hundred miles from our community and whose allegiance to the professional planners was unmistakable.

The hearing was held 70 miles from home. The procedure allowed no presentation on our part. We were permitted to answer questions, but nothing else. It took less than 10 minutes for them to dispose of us. Our proposal was rejected.

We had one more chance.

At this point the HSA had only "recommending" authority. The final decision still rested with the state board of health. Our alternatives were either to take our application to the state board of health—with one "approval" and one "dis-

approval" on our record—or withdraw it, as the planners hinted we should do, and revise it.

Our inclination was to go to the state board. These were reasonable people who were familiar with our hospital. Surely we could get a fair shake.

But the Federal procedure stated that if an applicant is turned down by the state agency, it cannot submit the proposal again for three years. Our patients had already waited three years, should we gamble?

Through unofficial channels we tried to get a feel as to how the state board of health viewed our proposal. What we learned was frightening.

Subsidy Means Control

The state board was intimidated. Much of the State Health Department's funding comes from Federal sources. And the word was that if the state didn't go along with the Federal recommendations, there would be serious questions raised about Federal Funding in other areas of operations.

We learned (unofficially) that our project didn't stand a chance.

So we withdrew it, as the planners had suggested. Our next step was to meet with them and learn the surrender terms.

In a two-hour conference with the top HSA officials, we asked what it was in our application that should

be reduced or eliminated. Should we, for example, scale down the dietary department or surgery, or what?

The director merely looked over our heads at the light fixtures. We were patiently reminded of Federal concern over medical costs and gently scolded for not being more cooperative with the planning staff. After a series of hints and innuendoes, we finally got the picture.

"Cut at least 10% from the costs. We don't care where or how you do it. Just cut the dollars."

On the surface this sounds reasonable. Federal planners insisting that those inefficient, gouge-the-public hospitals reduce their expenditures. Who could quarrel with that?

But our hospital was not inefficient. Its cost record was documented and known. It had demonstrated at the public hearing that if it were to become "average" (and thus fit all the planners' guidelines) it would spend an extra \$8 million in operating costs in two years, nearly enough to finance the proposed building project.

We had learned our lesson, however. The Federal planners now called the tune. No longer did our hospital board determine the institution's destiny. What counted was how close the hospital could come to the "averages" used in planners' reference guides.

Playing Their Game

The purpose of the average is, presumably, to bring below-average hospitals up to par. The effect is also to bring above-average hospitals, such as ours, down to par.

In order to get the needed facilities, we played the game.

The cuts made in our project were designed to please the planners, not to make good economic or operational sense. The planners, in effect, wrote our new application for us. We ground out more reams of data—laboratory procedures per square foot, man hours per meal, ad infinitum. It was the same material we'd done before, only turned upside down to please the bureaucrats.

The HSA staff approved us this time. The subarea council okayed us (for a second time) and the executive committee gave us unanimous approval. Now we can build; we've paid the ransom.

In the spring of 1977 we broke ground on a project that, without the Federal planning laws, would have been started in 1974. Construction costs have been escalating at one per

cent per month all that time. We'll have to build these inflated costs into our charge structure. (And guess whom the public will blame?)

Today in Fort Wayne \$27 million in construction is underway by three hospitals. If hospital boards (much more local in composition and with a greater ratio of consumers than the HSA boards) had determined the construction starts, rather than governmental agencies, more than \$6 million could have been saved.

Many Fort Wayne citizens still believe that the three existing hospitals kept a fourth hospital from opening in their community. That the public itself allowed Federal intervention, through Medicare and health planning laws, to stifle free enterprise, they do not believe.

In the rest of the nation HSAs are not yet in full operation. But the mandate is clear. The Federal planners will absolutely control hospital development. They will not save money, they will waste it.

They will achieve only one thing: control. And that's what they're after. ⊕

Due Process

IDEAS ON

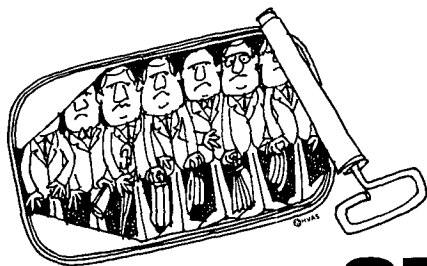


LIBERTY

It is hardly lack of due process for the government to regulate that which it subsidizes.

UNITED STATES SUPREME COURT

Wickard v. Filburn, 317 U.S. 111, p. 131, Oct. 1942



ON BEING EQUAL

LET's suppose we all start out equally, say with \$1000. How long would this equality last?

Some people would spend the whole thousand the same day and be penniless by nightfall. Others would spend it in a week, others in a month. Still others would put the money to work: in a bank, to collect interest; or in stocks or bonds; or as down payment on a farm or shop. The most adventurous ones would put the whole \$1000 into some such new enterprise and even borrow, at interest, from others. With this they would buy a plant and materials, and put other people to work. These workers would then be able to save their original \$1000 and spend only out of what they had earned. But they would not have been able

to do this if the enterprising people had not created the businesses that provided them the work.

And so by the end of a year, let us say, some would have nothing, some would have part of the original thousand, and others would have multiplied the original amount many times over. They would end up with unequal incomes.

Suppose now that the government intervened to make it all equal again. Those who had nothing left would get \$1000. Those who had \$100 left would get \$900. Those who had more than \$1000 would have to give up the surplus to provide the others with what they had spent. What would happen now?

Those who had spent it before would spend it again, believing that the government would reimburse them for what they had spent. Those

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who previously had spent some but not all of it would now spend it all, knowing they'd get more from the government the more they spent. And what of those who had multiplied their returns? They'd be very cautious about doing it again, believing that it would only be taken away from them at the end of another year. So they'd probably spend it too. But if everyone did that, whence would come the goodies to be distributed the following year?

The moral of this little tale is very simple: if everyone received the same income no matter what each did, soon there would be nothing left to distribute. There would be equality, but equality of zero. If people are to achieve anything, they must be able to keep at least a good part of what they have earned; otherwise there will be no point in trying to improve themselves by earning more—while incidentally providing employment for others.

Commensurate Rewards

People's achievements are unequal. People's labors are unequal. People's efforts are unequal. Accordingly, it is only natural that their rewards should be unequal.

But some people object if rewards are unequal. Many a person, seeing others earn more income than himself, says: "They're getting too much! Take it away from them!" A

professional robber will do the job himself and hold up the other person at gunpoint, or burglarize his house while he's away. But most people don't dare risk this. They do it another way. They vote for senators and representatives who will in turn vote in Congress to take it away from those who have earned it, so that it can be given to those who have not. Not wanting to take the risks and see the blood themselves, they hire a stick-up man who will use force and threat of force to do the job.

Doing the stick-up job via one's congressman may give some people a kind of satisfaction—it has brought the achiever down to their level. But by doing this they have, of course, robbed the man who earned it; not only that, in the end they have robbed themselves too. They may be accustomed to having consumer goods which the achiever has produced; and if they keep on taking his income away from him, finally he won't care to produce any more. Why go to the trouble and expense, and risk of laying his money on the line for uncertain returns, if it's only going to be taken away from him anyway? Aside from the loss of motivation to produce, in the end he won't be *able* to produce.

To produce, the achiever has to have capital, to keep his equipment renewed, to pay his workers, to modernize his plant. He won't be

able to do any of these things if he can't keep what he earns. And when the factory closes, his employees will be out of work. So there are already several disadvantages to this scheme: he will be bankrupt, the employees will no longer have work, and the consumers will be without a product they had before.

Yet in spite of this, many people are envious of those who succeed. "We should all be equal," they say, "not only before the law, but in income." The people who say this are usually the people who don't produce anything and want to be taken care of by the people who do.

Imitate Success

Let us not try to take it away from the man who succeeds. Let us not even envy him; rather let us try to emulate him if we can. Meanwhile, let us realize how much we depend on him. Those to whom we owe the debt, we would not be able to repay in a hundred lifetimes. How many lifetimes do you think it would take you or me to repay Thomas Edison for all he did to advance the human condition? When you pick up a telephone, think of the thousands of people whose efforts have made it possible for you to dial and reach in a few seconds a person three thousand miles away. Could you have done it yourself? No? Then don't resent or rob the persons who did—not as long as you desire to use

the services they have made available to you.

And remember that those who make a lot of money are no threat to you. If you don't like the rock singer who earns half a million a year, remember that you don't have to patronize him. You don't have to contribute one penny to his success. Whether or not he succeeds is entirely up to consumers of his product. As long as he earns his money from those who voluntarily pay to hear him, you have no reason to resent him. You are perfectly free to ignore him—which is more than you can say of the government. You pay not one penny of extra tax because of his success. In fact you probably pay less because he pays more.

There's another point often forgotten. No person can produce a product or a service on the free market by forcibly taking money from other people. He may spend all his money and borrow more to start up a business that makes a new product, and if he earns a million dollars from it (and the chances are very much against this) the only way he can do it is to produce in quantity a product that millions of people are willing to buy at the price for which he offers it. And they will do that only if the product is better or cheaper than the competition offers.

The president of General Motors is an influential man, but he has no power to arrest you if you don't buy

his products, or to try you or fine you or jail you if you refuse. He offers you a product at a price, and if you don't want to pay the price you can turn to someone else. At least that's the way things are in a free competitive society. Competition keeps the price down, and keeps the producers always on their toes.

Why Governments So Often Behave Irresponsibly

It's all very different with government, of course. When the government does something, it doesn't have to make money; almost always the government enterprise loses money, and spreads the loss to you and the other taxpayers. There is no competition to keep the price down, for the government creates a monopoly. The government-operated Post Office Department won't permit anyone else to handle first-class mail. If it did, the Post Office Department would be out of business in a week. It can maintain its status only by being a monopoly. Nor is there any great incentive to offer efficient service, or to serve you well. After all, if you don't like it, what can you do about it? You can't go to any private handler of mail because that's not permitted. You have to go through the government or not have such a service at all—and they know it. That's why government personnel are often so cynical and so inefficient. That's why

bureaucracy is always unwieldy and wasteful: the money they're using is not their own money, but *yours*.

If a person is spending money he earned himself, he is usually pretty careful about how he spends it because he knows how hard it was to acquire (if he does spend it wildly, then he's broke, and that's his problem, not yours). But if he's a government official, and has millions of your dollars to spend, he won't be nearly as careful—he probably won't be careful at all. Would *you* be as careful how you spent it if you suddenly had a million dollars of other people's money to spend, and even if you misspent it or wasted it you knew you could tax people and get more where that came from?

But most people seem confused about this difference. They don't see that when a corporation president buys a yacht, no one else is taxed to help pay for it. But when the president of the United States gets a yacht, the taxpayers will have paid for it down to the last bolt and screw.

Is It Worth It?

Sometimes the service you get in return for your tax dollar may be worth it. Maybe the president is worth what he gets. Maybe congressmen are too, though at the moment many seem to be largely concerned with spending taxpayers' money. Sometimes the police are worth it: that depends on where you

live and how much you need them and how well they respond to those needs. But many others are not—especially the endless array of government regulators in the thousands of government agencies, who dream up one regulation after another by which they can cripple your business and bury you in unnecessary paper work filling out their forms, and take out of your paycheck in taxes the money they use to regulate you. They may not know anything about your business, but they can still force you to conduct it their way.

And so it comes to this: there are producers and nonproducers. People

produce in various ways: new products, new versions of old products, services, inventions, ideas; both workers and managers are producers, each in his own way. Nonproducers, by and large, are to be found on the receiving end of a government pay-out, paid for out of your labor.

This, of course, places an ever heavier burden on the producers. If they are squeezed much further, production for trade will finally cease, and we shall be in a state of splendidly equalized destitution. It is time that we brought this mania for equality to a halt. For if we do not, we shall indeed all be equal, in poverty and starvation. ⊕

Equality

NO DOUBT all the trees in the forest fundamentally have equal rights and privileges. But they don't all grow to the same height, and it would seem rather foolish to cut the tall trees down to the level of the lesser ones to satisfy the theoretical demands of an unnatural formula. And it would seem just as preposterous ruthlessly to pull the short trees up to the height of the tall ones. If we did, it would mean their uprooting—they would wither and die, as all things do unless they grow by themselves from their own roots. And so, to those who would like to eliminate differences among men, it should be said that if it were possible to do so, progress would cease. Equality cannot therefore mean to bring all men low. It must mean opportunity for each man to rise to those heights to which his energies and abilities will take him—and allow all men the same privilege—to the end that progress may continue, and that thereby all will find benefit. Equality which means less than this is not equality at all—it is slavery.

RICHARD L. EVANS

IDEAS ON



LIBERTY

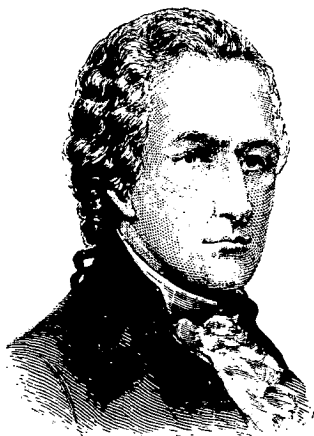
ALEXANDER HAMILTON

To Holmes Alexander, who has watched the passing show as a syndicated columnist in Washington for thirty years, our first Secretary of the Treasury Alexander Hamilton qualifies as the "second greatest American." (George Washington is the obvious first.) The Jeffersonians will hate the choice, but Mr. Alexander goes a long way toward sustaining it in his biography of Hamilton, *To Covet Honor* (Western Islands, 395 Concord Avenue, Belmont, Massachusetts, 02178, \$12.00).

For myself as a reviewer, I was convinced by Mr. Alexander while I was reading his heroic and tragic evocation of Hamilton's career, from his illegitimate birth in the West Indies to his death in the duel with Aaron Burr. But maybe the times have something to do with my feelings.

At a younger age I would have put Jefferson and Madison on pedestals fully as high as the one Holmes Alexander reserves for Hamilton. Jefferson, with his purchase of the Louisiana Territory, made us a continental people. He, along with his fellow Virginians, will be associated forever with the Bill of Rights. Hamilton's own definitive role in shaping our Constitution cannot be denied, but the final document represented a Madisonian "pull back" from Hamiltonian centralization.

When I look at the way the federal government has perverted the general welfare clause of the Constitution and denied the States' and individual rights implications of the Ninth and Tenth Amendments, I tremble to think of what might have happened if Hamilton had succeeded in endowing a strong executive with



ALEXANDER HAMILTON.

the right to appoint State governors. That sort of thing led to the fatal rigidity of the Old Regime in France.

But if Hamilton must yield to Madison as a Constitution maker, Mr. Alexander clearly establishes the importance of fiscal sobriety and probity if a nation is to endure. If Madison had prevailed over Hamilton on the issue of the public credit, it is doubtful that we would have had a country to enjoy life under a constitution in the first place. Madison was against Hamilton's plan for the Federal assumption of state debts. But a government born in repudiation would have had little chance of survival. Hamilton's insistence that the young United States should meet all obligations incurred in fighting for its right to exist saved

the union from disintegration at the outset.

Our country did well in the years it abided by Hamiltonian fiscal principles. Now that we are threatened with dissolution from the financial repudiation that is inherent in inflation, we can see all the more clearly the justice of Hamilton's claim to be second only to Washington as a nation maker. Hamilton's statement, that "the creation of a debt should always be accompanied with the means of extinguishment," has, in late years, been so honored in the breach that we may be past recovery. Certainly the Madisonian constitution and the Jeffersonian Bill of Rights will be doomed if Hamilton's anti-inflation principles can't be restored.

Hamilton's Ancestry

Mr. Alexander plays down the whole question of Hamilton's ancestry. West Indian records of the Eighteenth Century are so fragmentary, and so contradictory where they do exist, that no one can be sure about anything. Hamilton himself chose his own birthplace and birth date and paternal forebears. Mr. Alexander apparently believes that the less said about Hamilton's mother, the better. Unwilling to indulge in romantic conjectures, Mr. Alexander takes Hamilton out of St. Croix in the West Indies as soon as possible. He says Hamilton's father

and mother—whoever they may have been—were of little importance in his life. A self-designated New Yorker, Hamilton never had any desire to return to St. Croix, where he got his education, or to Nevis, the British island he claimed for his birth.

Mr. Alexander is on sound ground as an historian in refusing to romanticize. But, as an admirer of Gertrude Atherton's great historical novel about Hamilton, *The Conqueror*, it is hard for me to accept Mr. Alexander's casual dismissal of Hamilton's origins. Hamilton's mother may have had dubious sexual morals (the same was true of Hamilton himself) but every researcher agrees that she was something of a bluestocking. The young Hamilton must have got his first-rate brain from someone.

His maternal relatives on St. Croix, who took him in and eventually helped make up a purse to send him to New York and a college education, must have given him something of a home atmosphere. He had good teachers, notably Dr. Hugh Knox; he had ready access to the classics in the homes of wealthy sugar planters; and he learned to write with such power that his description of a hurricane, published in a local paper, impelled a number of people besides his relatives to stake him to his American trip. Moreover, he had had the good for-

tune to work in Mr. Cruger's counting house, where he learned something about the value of solid coin.

An Objective Viewpoint

Not the least of the advantages which Hamilton took with him to New York was the "exterior view." Coming from a tropical island outpost of European empire, he had no inborn allegiance to any single one of the thirteen colonies that fought the war against King George III. He liked living in New York, but it was the cosmopolitan city that fascinated him. He was our first real nationalist. As Washington's war-time aide (and corresponding secretary), he had to deal with an almost impotent Continental Congress. He was the one man in America who happened to be molded by training and experience to set forth the idea of a solvent republic, able to defend its borders and to encourage local manufactures that would enable it to endure discrimination and blockade. If Hamilton always remained something of a mercantilist, he was not insensitive to the need for a flourishing foreign trade. He would have learned more about political economy if he had lived into the age of Ricardo.

With a strong brain, Hamilton worked from a master plan. As Mr. Alexander points out, quoting from an earlier biographer, the Englishman Frederick Scott Oliver,

Hamilton's "three phases of independence" had to do with finance, foreign policy and industry. First, he wanted to free the nation from "unwarranted gratitude" for wartime loans. Second, he sought freedom from foreign intrigue. And third, he wanted to see his country self-sufficient in a world of warring empires. Since he was a favorite of Washington, he had a unique opportunity to translate his master plan into action. At the end of Washington's second term he provided the Father of Our Country with his famous Farewell Address. Thus he put his mark on an independent foreign policy that was to prevail until Woodrow Wilson departed from it.

Hamilton might have become rich, but he preferred to take payment in honors. As Major General Hamilton, he might have seized power in 1800. John Adams, who disliked him for being "an intrigant . . . a bastard . . . a foreigner," thought he might have made an attempt at a coup d'etat. But Adams was wide of the mark. After all, Hamilton had used thousands of written and spoken words to prove that the American Revolution differed entirely from the French, and this precluded any adventure in Bonapartism. The man whom Burr killed stands as the greatest example of intellectual honesty in our history. ☸

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